

Triggers for Change of Regulations

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- Approved Unbundled Element Tariff and either direct competition or demonstrated purchases of unbundled network elements (e.g., loops)
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Change of Regulations

Remove IX basket from Price Caps

Remove Access Service from Price Caps

- Transport
- Directory Assistance
- Query - LIDB
- Query - 800 Database
- Originating Switched Access

Remove Terminating Switched Access from Price Caps

Regulations must be uniformly applicable to all competitors

Transport and Directory Assistance already have robust competitive environments

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 - DS1 and DS3: Seven competitors have captured 30% of Midwest market and 51% of the Chicago market
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Regulations can be removed Service by Service

Access Reform - Access Pricing Flexibility

- Expand geographic pricing to all rate elements
- Location specific pricing (individual buildings)
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Need flexibility to respond to competition

Loop and Line Port Recovery (LPR) Mechanism

A)	25% of Loop and Port Cost	\$400M
B)	Amount recovered through EUCL	\$304M
C)	Under-recovery of Interstate Loop/Port Cost (A - B)	\$ 96M
D)	Number of Lines	4M
E)	Average Dollars Per Line Per Month (EUCL Less than 25%) (C / D / 12 = E)	\$ 2.00
F)	Average Number of Lines (EUCL Less Than 25%)	3.8M
G)	This Month's Gross LPR (E x F = G)	\$7.6M
H)	Amount Recovered by Universal Service Fund for Interstate Portion	?
I)	This Month's LPR (G - H = I)	\$7.6M
J)	IXC - ABC Interstate Toll Revenues in the State	\$400M
K)	Total IXC Interstate Toll Revenues in the State	\$2000M
L)	% of IXC - ABC Interstate Toll Revenues in the State	20%
M)	This Month's IXC - ABC LPR (L x I = M)	\$1.52M

Notes:

<i>A-E</i>	<i>Calculated once every year</i>
<i>F-I, M</i>	<i>Calculated each month</i>
<i>J-L</i>	<i>Calculated each quarter</i>

Ameritech Interstate Access Reform Proposal Switched Revenue Example (\$M)

Proposed Access Reform Structure	1997	1998	1999	2000	2001	2002
EUCL	850	850	850	850	850	850
Loop/Port Recovery Charge	295	281	267	253	239	225
Local Switching	275	257	239	221	203	185
Trunk Port	25	25	25	25	25	25
TIC	310	248	186	124	62	0
Transport	120	112	104	96	88	80
Total Switched Access	1,875	1,773	1,671	1,569	1,467	1,365
Maximum Revenue allowed under Price Caps	1,875	1,846	1,818	1,789	1,761	1,732
Notes:						
* Assumes constant 1996 demand at projected yearly prices						
* EUCL prices assumed constant						
* Loop/Port Recovery Charge is transition over five years from today's revenues to embedded cost model						
* Local Switching and Transport prices are based on market rates						
* TIC priced is eliminated over five years beginning 1/1/98						
* Price Cap reduced annually by 2% of Local Switching, Trunk Port, TIC and Transport plus reduction in LPR transition						

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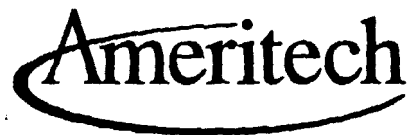
DEC 24 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

ACCESS REFORM

Ameritech Recommendation

October 9, 1996

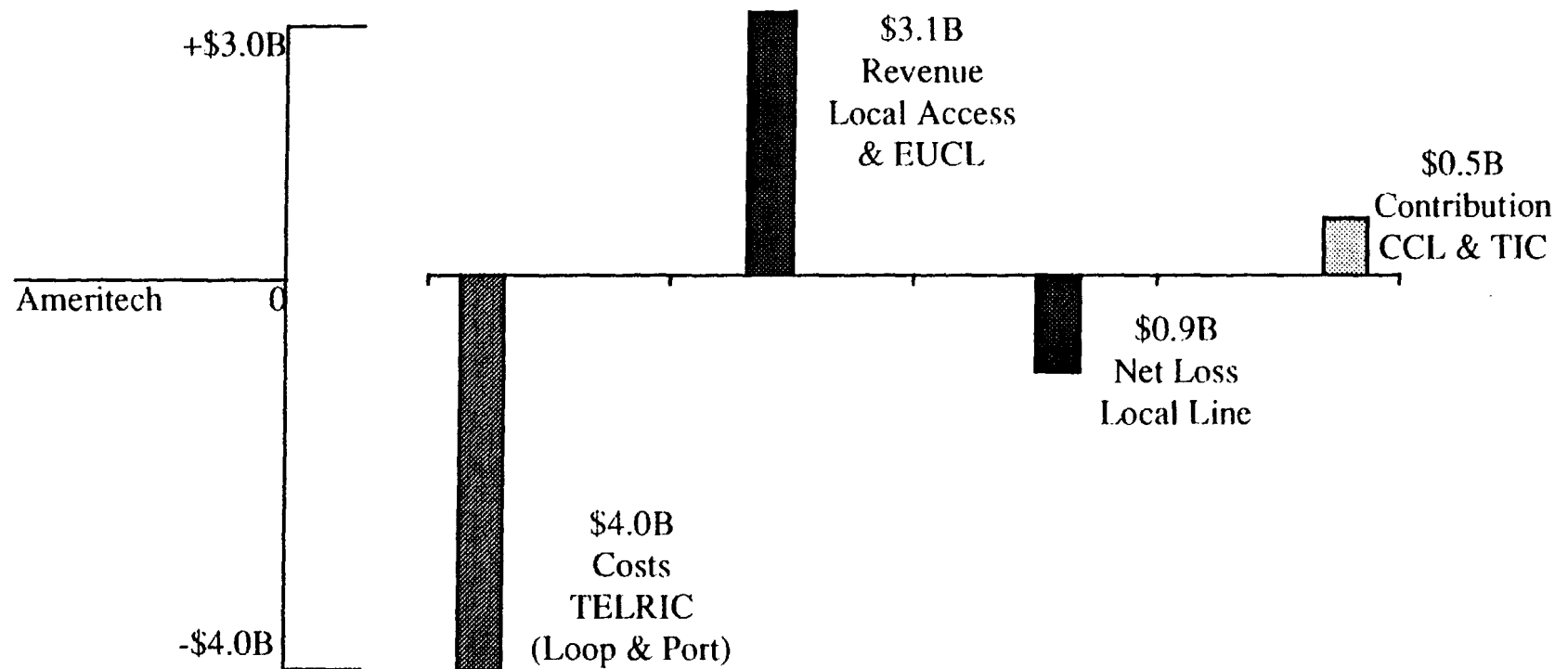


Access Reform - Key Issues for Ameritech

- The Access Reform docket must address the existing subsidies in interstate access rates
- The FCC should streamline its regulation of access charges so that all competitors can compete on equal terms in the marketplace

Local line prices are significantly below costs

For the Ameritech region Local Line Revenues are significantly short of costs including shared and common costs of the loop and port



For example, today a residential customer in Kalamazoo, Michigan pays \$13.94 per month for their access line while the TELRIC for the loop and the port is \$18.76. For each residential line in Kalamazoo, a contribution of \$4.82 must come from other services.

Sources of revenue that contribute to the LECs ability to maintain below cost local exchange access line pricing will diminish

Contributions from Access:

Carrier Common Line
Transport Interconnection Charge
Margins on Access Services

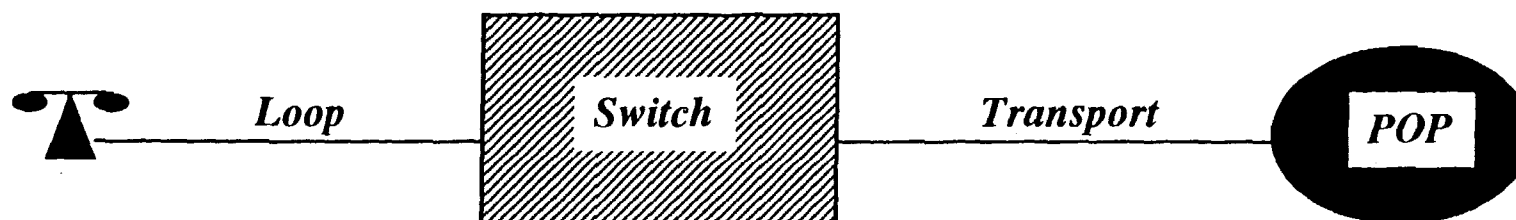
Contributions from Other Sources:

IntraLATA Toll Margins
Vertical Service Margin
Urban Margins Contribute to Rural Rates
Business Margins Contribute to Residence Rates

- ILECs can no longer count on retaining existing higher margins in toll and access services because of the developing 1+ intraLATA toll competition and the pressure to move access prices closer to TELRIC based unbundled network element pricing as the IXC's self-provide access
- ILECs can no longer count on the margins from vertical services because of developing local competition
- Competitors will target high margin communications intensive businesses and households

Today's access contributions support below cost local line prices

Switched Interstate Access Today



EUCL = \$800
CCL BFPO = \$165

Local
Switching = \$410
TIC = \$335
Info
Surcharge = \$ 10

Transport = \$95

Total = \$1,815

**Ameritech Revenues (\$M)*

Access Reform

Recommended Solution

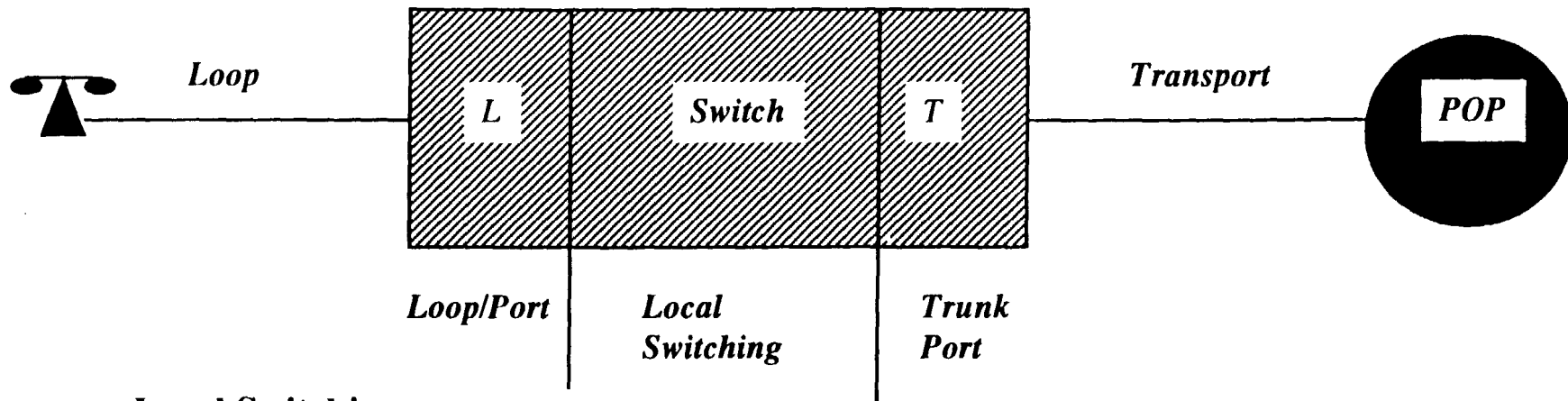
1) Realign Rate Elements

- Remove the line port from local switching and associate with recovery of loop costs
- Separate the remaining local switching element into a usage element and a flat rated monthly trunk port element
- Transfer TIC to appropriate elements, phase out remainder over 3-5 years
- Establish new loop and line port cost recovery mechanisms outside of Price Caps - transition recovery of costs to 25% of TELRIC over 3-5 years

2) Form single Price Cap basket

- Prices based on market forces and annual price cap mechanisms
- Competition will drive prices to approach TELRIC

Access Reform -Switched Access Rate Realignment



Local Switching

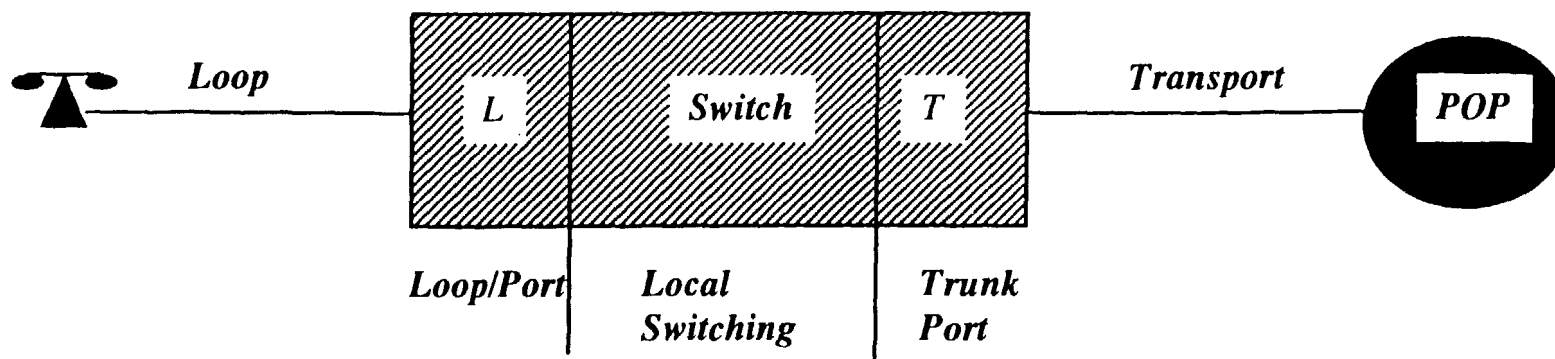
- Transfer NTS line termination and Info Surcharge revenue requirements to Loop/Port recovery mechanisms
- Establish flat rated trunk port charge which recovers cost of trunk port
- Recover remaining traffic sensitive local switching on per minute of use basis

TIC

- Transfer tandem and SS7* related costs to appropriate access rate elements
- Reduce by difference between full loop costs and current price cap
Common Line revenues to be assumed by the Loop/Port recovery mechanisms
- Bill remainder to IXC's as a transitional surcharge - this amount to be phased out over 3-5 years

* SS7 related costs already removed from Ameritech TIC (TRANS #982)

Access Reform - Switched Access Rate Realignment



Carrier Common Line

Base Factor Portion Overflow (BFPO)

- Transfer BFPO to Loop/Port recovery mechanisms
- Remove pay telephone costs from common line in accordance with FCC 96-128 Order

NECA Long Term Support (LTS)

- If LTS is not subsumed by universal service, the FCC should direct NECA to bill IXC's directly

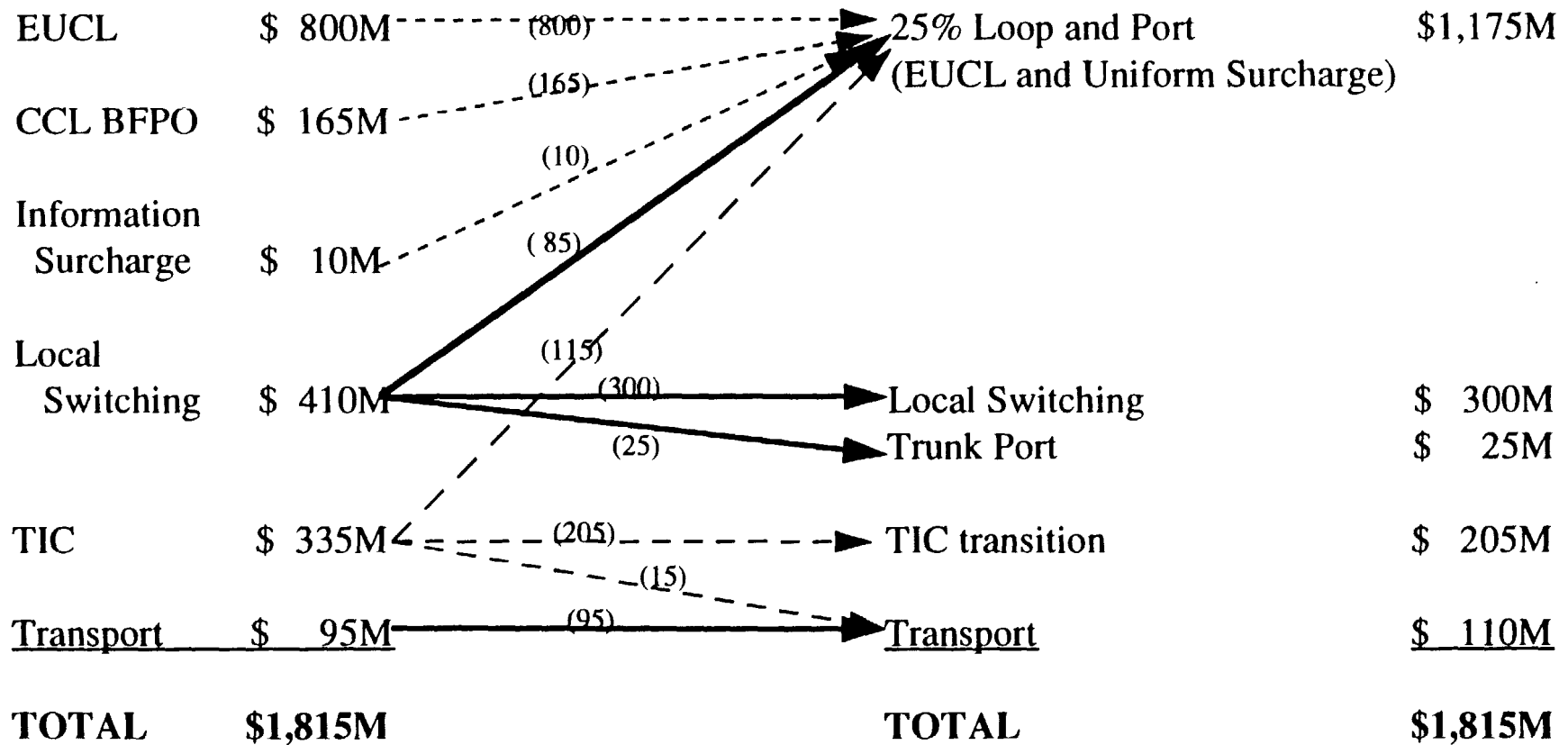
Loop/Port recovery mechanisms

- Full interstate loop and line port costs recovered by a combination of EUCL and uniform surcharge to interstate long distance carriers
- Transfer Non Traffic Sensitive (NTS) Line Termination and Info Surcharge revenue requirements from Local Switching to Loop/Port
- After initial revenue requirement calculation, rate is transitioned over 3-5 years to 25% of TELRIC for each loop used to provide local service
- Allow geographically deaveraged rates for EUCL consistent with unbundled elements

Mapping Today's Rate Elements to Switched Access Rate Realignment

Today

Recommended Solution



Access Reform - Price Cap Revisions

- Loop and line port cost recovery (Common Line) removed from Price Caps
- Simplify treatment of remaining Access Services
 - Aggregate into a single Price Cap Basket
 - Transitional TIC would reside in a sub-band
- Allow rate structure flexibility, including establishing zones, consistent with unbundled network elements
- Ability to establish new services without cost support or Part 69 waiver
- Competitive services removed from Price Caps
 - Existing IX basket
 - Transport and Directory Assistance Services

Eliminate Price Regulation for Competitive Access Services

- Services should be declared competitive and removed from Price Caps when equivalent unbundled elements are being purchased or direct competition exist (i.e., Transport, Directory Assistance, Query)
 - Unbundled transport is a direct substitute for access transport services
 - Market forces and the availability of unbundled elements will drive prices
- Remaining services should be removed from Price Caps when unbundled elements or local transport and termination are available to access customers
 - An effective market alternative to originating Switched Access exists when unbundled elements of Loop, Port and Local Switching are generally available
 - LECs should be given option after the transitional period to allow reciprocal compensation for all traffic, removing terminating Switched Access from Price Caps

All Access Services should be removed from Price Caps when alternatives exist

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ACCESS REFORM

Ameritech Recommendation

Local Switching Revenue	% NTS Investment	NTS Revenue Allocated to Loop and Port
410 M	27%	112 M

ACCESS REFORM

Ameritech Recommendation

% NONTRAFFIC SENSITIVE (NTS) INVESTMENT TO TOTAL SWITCH INVESTMENT

State	Switch Type	Switch %	% NTS Investment	Weighted % NTS Investment
Illinois	5ESS	38%	3%	28%
	DMS100	47%	41%	
	EWSD	15%	51%	
Indiana	5ESS	30%	3%	32%
	DMS100	49%	41%	
	EWSD	21%	51%	
Michigan	5ESS	40%	3%	28%
	DMS100	42%	41%	
	EWSD	18%	51%	
Ohio	5ESS	50%	3%	23%
	DMS100	38%	41%	
	EWSD	12%	51%	
Wisconsin	5ESS	45%	3%	26%
	DMS100	39%	41%	
	EWSD	16%	51%	
Region				27%